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Central Intelligence Agency



Washington, D. C. 20505

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DIRECTORATE OF INTELLIGENCE

25 SEP 1985

MEMORANDUM FOR: See Distribution List

FROM :
Acting Chief, Economics Division, OGI

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SUBJECT : France and a New GATT Round

Attached is a typescript recently produced by the Economics Division. It examines French positions on the proposed new round of multilateral trade negotiations under GATT. If you have any questions or comments, please contact of our International Trade Branch

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Attachment:

France and a New GATT Round: A Policy of Delay
GI M 85-10249, September 1985

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SUBJECT: France and a New GATT Round: A Policy of Delay

OGI/ECD/T [] (25Sep1985)

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MEMORANDUM

France and a New GATT Round: A Policy of Delay

US efforts to build support for a new round of GATT multilateral trade negotiations have received some support from all industrial countries. France, while it has endorsed a new round, is only partially in step with the other industrial countries, particularly on its timing. While the United States seeks fast progress and wants a round to handle several new topics, Paris has answered by trying to delay and showing little enthusiasm for US ideas.

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French Justifications for Delay

Over most of 1985, Paris has publicly employed three primary justifications for delay:

- * A trade round should not go forward alone, but should progress in parallel with negotiations on monetary issues.
- * Better preparation and more work on the issues are needed.
- * The industrial countries need to wait for LDCs to be brought on board.

GI M 85-10249

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Officials in the Foreign Trade and Industrial Redeployment Ministry, External Relations Ministry, and Elysee have frequently and publicly repeated these justifications. The foreign and foreign trade ministries have followed a consistent -- and apparently well-coordinated -- line. We have, in fact, seen little evidence of dissent within the French government on the tactic of delay. [REDACTED]

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Motives Behind French Tactics

We believe that the most deeply held reason for delay is protection of the EC's Common Agricultural Policy (CAP). [REDACTED]

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[REDACTED] Paris does not want a new round -- or an initial phase of a new round -- in which agriculture predominates. Specifically, diplomatic reporting indicates that Paris fears that an early start to a new GATT round would lead to negotiations on agriculture before France would be in a position to identify and demand offsetting concessions in other areas. We also believe the Mitterrand government does not want the French electorate to be concerned about changes in farm policy before the spring 1986 national legislative elections. Delay will allow other agenda items to ripen, as well as bring the launch of a new round well past elections. [REDACTED]

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Beyond delay, Paris retains serious concerns over the fate of the CAP in a new round, and worries particularly about a possible coalition of the UK and West Germany (motivated by EC budgetary concerns) and the United States to seek a more liberal CAP. Although we believe many politicians

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[redacted]

and agricultural interests in West Germany are no less interested in protecting the CAP than are their French counterparts, the United States might be able to work with the UK and West Germany toward limited objectives, such as bringing agricultural export subsidies under control.

[redacted]

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Other French motives for delay are probably less strongly felt at present than defense of the CAP.

Monetary Reform Current French linkage of monetary and trade talks is largely tactical. According to diplomatic reports, German officials asserted in March that French insistence on the trade-monetary link is merely a ploy to avoid discussing trade and not a way to promote discussion of financial issues.

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[redacted]

[redacted] We believe Paris prefers trade negotiations be conducted in an atmosphere in which there is confidence that exchange rate swings will neither nullify nor distort hard-won trade concessions. Delay can allow time for Paris to pursue its monetary objectives before addressing trade issues.

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Protection of High-technology Industries French officials have reacted negatively to the high-technology agenda item proposed by the United States. [redacted]

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[REDACTED]

Additional Time for Policy Formulation The French tactic of delay also conceals the fact that Paris, despite considerable study of new round issues, has yet to clarify its positions in many areas. Delay provides time for Paris to flesh-out substantive policies and strategies to advance them. [REDACTED]

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French Goals in a GATT Round

While trying to delay a new round start up, France has stated that it will eventually participate in a round. [REDACTED]

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[REDACTED] So far,

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French officials appear to view new round policy as an exercise in loss minimization. [REDACTED]

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According to press reports, France also favors improving numerous GATT rules -- on dispute resolution, intellectual property rights, safeguards, and nontariff barriers. Finally, Paris hopes to use a new round to pressure Japan on its import policies.

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Possible Influences on the French Stance

Several factors could increase or decrease French enthusiasm for a new GATT round. The possible influences we have identified are:

Value of the Dollar A decline in the value of the US dollar relative to other major currencies would probably increase French willingness to negotiate on trade. In the past, France has insisted that a new GATT round

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would be meaningless unless something were done to bring down the US dollar and smooth out the international monetary system. However, a precipitous decline would probably raise concerns about competitiveness of French products in the US market and would reinforce the conviction of French officials that it is still necessary to seek mechanisms to control large exchange rate movements. In such a situation, a GATT round could again be held hostage to a renewed French effort to achieve international monetary reform. [REDACTED]

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US Protectionism Although the most widely publicized legislation now being considered by Congress is directed at Japan or developing countries, other US actions that could harm French interests -- for example export subsidies on US agricultural products exported to third-country markets -- might influence Paris's stance on a new GATT round. French dependence on external markets is high -- GDP growth in France in 1984 was entirely due to goods and services exports. However, Paris is probably more likely to respond to major US protectionist actions with retaliation. Paris would be likely to take an especially hard line in the EC on existing US-EC trade issues such as citrus. A more extreme form of retaliation -- much less likely to be used -- would be to insist on a suspension of EC participation in a new round or its preparatory phase. [REDACTED]

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New Round Backing from Other EC Members Because of Paris's negative reaction to pressure from other EC members on new round topics at the Bonn Summit, it is difficult to estimate what other EC members can now do to

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influence Paris's attitudes. In Bonn, Mitterrand confronted a US and German effort to fix a 1986 starting date -- what French officials described as a take-it-or-leave-it offer -- and rejected this initiative. However, we believe pressure from Bonn and London -- if not spotlighted in the press and conducted among working-level officials -- might prompt some change in French positions regarding timing and agenda.

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Reversal of Brazilian and Indian Opposition Continued developing country opposition to a new round keeps alive France's objection that a round should not start until the developing countries are aboard. A compromise in which Brazil and India agree to participate in a new round -- and also agree to services negotiations under a format acceptable to the United States -- would eliminate this French, and EC, concern.

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French Elections Although the 1986 legislative elections are a major reason for French efforts to delay a new GATT round, we believe a major defeat for the Socialist Party -- which we consider likely -- might actually have little effect on French trade policy. New conservative cabinet members might, however, be somewhat more disposed toward liberal trade policies, including support for a GATT round. More importantly, French policy-making could be paralyzed after the elections. Although a conservative government is likely to be elected next year, Mitterrand's

term runs until 1988, and he has indicated that he will serve it out.

Power sharing -- the French call it "co-habitation" -- between a president and prime minister from different parties is unprecedented, and the constitutional authority to make policy in many key areas -- especially foreign affairs -- is unclear. France may experience a period of political instability while the legal issues are sorted out. French policy after elections is in any case likely to be less vigorous and typified by compromises reached slowly through a fragile political consensus. [REDACTED]

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Outlook

Major GATT members are still involved in early jockeying for advantage in a new trade round. At this stage, Paris appears to view delay as its optimum tactic. We believe France will continue to delay the start of a round, at least well into 1986 and perhaps into 1987. On the other hand, it is very unlikely that Paris will try to block a new GATT round unless a major political-economic event, such as a trade war between the EC and the United States, intervenes. France will certainly continue to balk at addressing any agricultural issues early in a round, and will oppose discussing CAP programs -- except, perhaps, agricultural export subsidies. France appears satisfied for the moment at Group of 10 and IMF Interim Committee commitments to work on monetary policy questions, and is unlikely to aggressively reintroduce the linkage issue in new round planning. We believe that once a new round begins France will probably try to drag out negotiations for years, giving French industries time to improve their competitiveness. [REDACTED]

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ANNEX I

1985 CHRONOLOGY: FRENCH STATEMENTS
AND ACTIONS ON A NEW GATT TRADE ROUND

5 March -- Jean-Pierre Landau, Assistant Director, DREE (External Economic Relations Directorate of the foreign trade ministry -- see Annex II for foreign trade and foreign ministries' trade policy structures) tells US officials (1) time is not ripe for agricultural negotiations, (2) is nothing to negotiate on high technology trade, (3) France questions US motives in high technology area, and (4) there is nothing to say on services until national studies are completed. Says maybe in two years services could be a valid area for negotiations -- it is the only promising new area. [REDACTED]

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early-March -- Member of finance minister Beregovoy's staff tells a Swedish diplomat that Beregovoy is arguing for a more conciliatory French position on a new round. [REDACTED]

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11 March -- Jean Videl, Director of the foreign ministry's Economic and Financial Affairs Bureau, tells US officials that (1) a new round needs more work on substance, (2) developing countries need to be brought on board before it can start, (3) monetary and trade issues must be treated in parallel, and (4) it is unlikely that enough work could be done in 1985 for Paris to take a position. [REDACTED]

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15 March -- Francois David, Deputy Director, DREE, and Landau tell US officials that (1) France will not agree to a new round unless developing countries participate, (2) Paris has no clear idea of where the United States wants to go with high technology and services, (3) the link between monetary and trade issues must be discussed, (4) there is nothing magic about a 1986 starting date (that the United States is seeking), and (5) France would support a high level meeting in GATT in July or September to define the agenda of a new round. [REDACTED]

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19 March -- EC trade ministers agree on a Community declaration on a new trade round after a 12-hour discussion by senior officials and 11 hours by trade ministers. According to EC and German officials, at the start of discussions the French oppose the idea of a new round and question the need for any declaration. At one point, foreign trade minister Edith Cresson almost walks out in disagreement over the agriculture paragraph. Later, Cresson reportedly stretches her instructions "almost to the breaking point" in working with others to achieve compromise. [REDACTED]

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[REDACTED]

In the compromise text the EC agrees to the principle of a new GATT round and commits itself to play an active role in developing an international consensus on timing, content and participation (see Annex III for text). The declaration also endorses services talks. France, however, blocks inclusion of a target date for beginning negotiations. Also at French insistence, the declaration includes only a very limited commitment to negotiate on agriculture, and notes that no issue (meaning agriculture) should be broken out and treated separately. Paris obtains a statement that monetary and financial agreements should be sought in parallel with results in trade. Language on "rollback" of protectionist actions is included because, as Cresson suggests, the United States might impose restrictions on steel or an import surcharge and then try to use them as bargaining chips in a new round. [REDACTED]

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[REDACTED]

25 April -- Videl says Mitterrand wants agreement on a monetary discussion

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[REDACTED]

process at the Bonn Summit. Says will be difficult to determine if consensus exists for a new round until after the high level meeting in GATT. [REDACTED]

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25 April -- In discussion with US Ambassador, Beregovoy offers signal that French policy on the trade-finance link is not concrete when he calls French and US positions the "two extremes" ("a new Bretton Woods" vs. "do nothing"). Notes France wants a meticulously planned new round, clear understandings on agenda items, and all items on the table. [REDACTED]

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28 April -- In French television interview, President Mitterrand reaffirms French demand for linkage between new round and an international monetary conference. [REDACTED]

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3-5 May -- At Bonn Summit, in a performance for the benefit of the French electorate, Mitterrand bases refusal to agree on a date to start a new GATT round on concern that the CAP could be jeopardized in a new round. Mitterrand also refuses to cooperate in response to West Germany moving beyond 19 March EC declaration on a new trade round on timing and on agriculture. He downplays trade-monetary linkage at the summit. [REDACTED]

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At 4 May press conference Mitterrand gives three reasons for opposing US call for a firm date: defending the CAP, need to seek consultations with developing countries before a new round begins,

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[redacted]

need for talks to reform international monetary system. Mitterrand admits he was isolated, but proclaims, "To be alone in Bonn does not mean being alone in the world." Mitterrand does, however, agree that new round preparations should continue, and admits that "it could even lead to a new round in 1985, who knows?" [redacted]

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8 May -- In Monde interview Cresson says (1) France wants all subjects on the table in a new round, (2) France does not want agenda dictated by others, (3) industrial countries need developing countries, such as India and Mexico, as willing participants, and (4) she was astonished at the German position at the Bonn Summit on timing and prominence to be given to agriculture in the early stages of a new round. [redacted]

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9 May -- In background interview given by Mitterrand to French press, he notes Paris is willing to participate in a new round under previously stated conditions: monetary talks, precisely defined and broad agenda, and involvement of developing countries in preparatory talks. Indicates concern that only agricultural trade is ready for serious negotiation. [redacted]

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13 May -- Cresson agrees on need for a new round during visit to Washington. Notes French concerns on need for thorough preparation and not starting a round with only agriculture ready for the negotiating table. [redacted]

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5 June -- Jurgensen tells US officials that if 8-10 June Stockholm and September Geneva high level GATT meetings go well, France could by the end of 1985 support setting a date to begin a new round, "although certainly not to begin on 1 January 1986." Repeats French concern that agricultural topics not get out ahead of other agenda items. Does not mention parallel monetary discussions. He and, later, David stress need for proper preparation.

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8-9 June -- At informal ministerial meeting in Stockholm, Cresson reiterates French call for parallel negotiations on international monetary problems, but says talks could be held in a forum other than GATT. Most ministers at meeting agree to ask GATT Council to

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organize a senior officials meeting to begin to plan for a new round and invite governments to submit opinions on content and objectives of a new GATT trade round. Cresson says she welcomes request for submissions as this would oblige the United States and Japan to spell out exactly what they want from a new round.

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8 July -- EC submits communication to GATT on new round. Reflects 19 March EC trade ministers' declaration. Contains strong endorsement of services talks, but nothing on timing. Endorses "perception that results in the monetary and financial areas should be sought in the appropriate fora in parallel with results in the trade field." Concludes with statement that "The Community is strongly in favor of a new round of multilateral trade negotiations."

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20 August -- Jean-Marie Metzger, Office Director, DREE, explains to US officials that French delay in voting for the September GATT Contracting Parties session (a different procedural framework for the same September GATT high level meeting) requested by the United

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[REDACTED]

States is to avoid giving the developing countries the impression they are being railroaded. Says Paris has, though, told the developing countries that it will vote in favor. [REDACTED]

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27 or 28 August -- Before 31 August deadline, France casts its vote in favor of the September meeting called to prepare for a new GATT trade round. [REDACTED]

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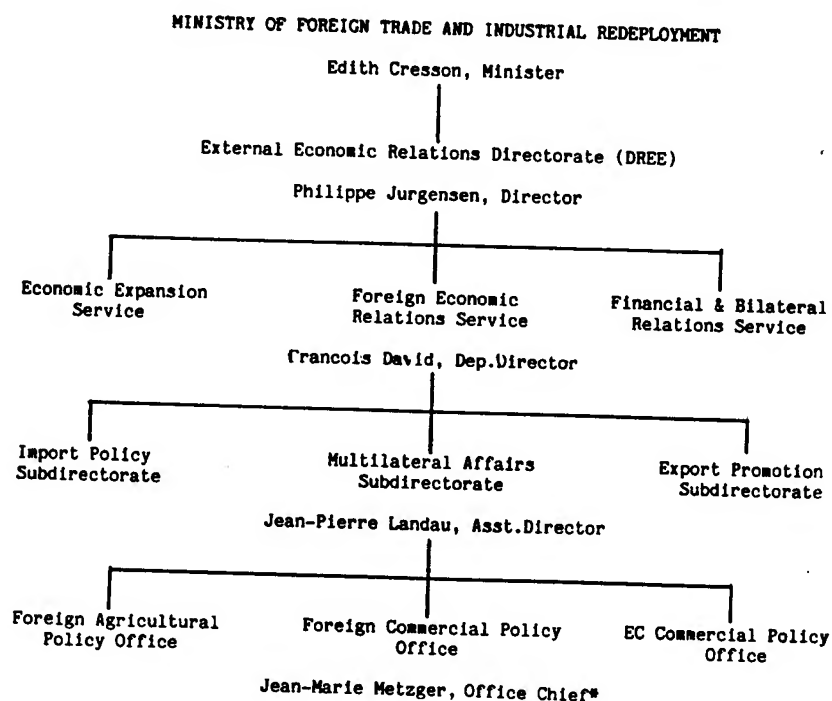
13 September -- French foreign, foreign trade, and Elysee officials repeat to US officials standard French caveats on a new round: much work needs to be done, need to have developing countries on board, concerns over agriculture and high technology goods. Jurgensen indicated concern that the US commitment to rapid progress on new round procedure might allow developing countries to avoid serious negotiations on services. He was also concerned that the United States might not press Japan hard in a new GATT round in order to assure continued support from Tokyo for the round and to facilitate US-Japanese bilateral talks. [REDACTED]

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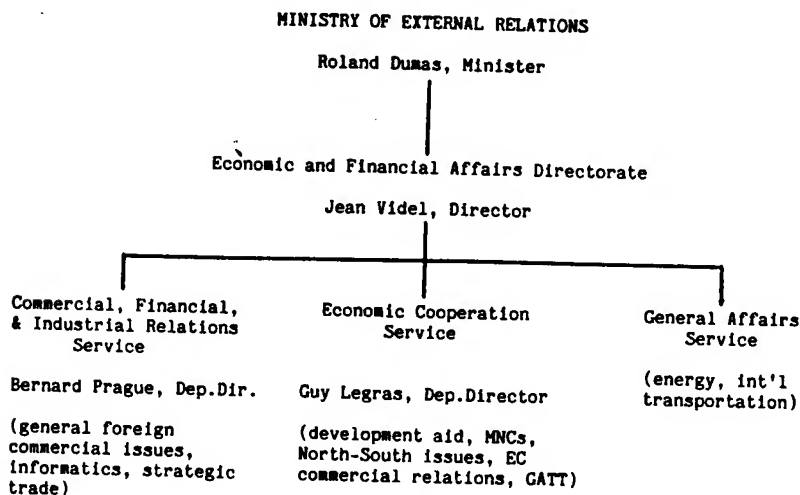
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ANNEX II

KEY TRADE POLICY-MAKERS IN FRENCH FOREIGN TRADE
AND FOREIGN MINISTRIES



*unconfirmed recent promotion



ANNEX III

19 MARCH EC TRADE MINISTERS' DECLARATION
ON A NEW ROUND OF TRADE NEGOTIATIONS

1. Suggestions for a new round of multilateral trade negotiations have been the subject of careful international consideration for the past two years. They received particular attention at the meeting of the OECD ministers in May 1984, at the London Economic Summit in June 1984 and at the meeting of the contracting parties of the GATT in November 1984. Such multilateral negotiations have been a regular feature of the GATT since its inception.

2. The Council recalls that a new round, while of the utmost importance to a strengthening of the open multilateral trading system and to the expansion of international trade, will not of itself be sufficient to such purposes. Thus the Community, in the perspective of a new round, and while working to achieve the broad consensus requisite for its launching, will urge that the following separate but related desiderata receive serious parallel consideration. Thus:

(a) In order to ensure credibility, reaffirmation will be necessary of the international commitments variously accepted at the Williamsburg and London summits, and at the last meeting of OECD ministers in Paris and of the GATT Contracting Parties in Geneva:

- Effectively to halt protectionism and resist continuing protectionist pressures (standstill);

- To relax and dismantle progressively trade restrictions as economic recovery proceeds (roll-back); to pursue the 1982 GATT Work Programme as complemented by the decisions of the Contracting Parties in November 1984.

(b) Solutions to imbalances whose origin lies in the monetary and financial areas cannot be found in trade negotiations. Determined, concerted action is required to improve the functioning of the international monetary system and the flow of financial and other resources to developing countries. Results in the monetary and financial areas should be sought in parallel with results in the trade field.

3. Despite previous trade rounds, Japan's growth of imports of manufactured goods has nowhere near matched her export growth. Like concessions to Japan have not produced like results, and in consequence, an imbalance of benefits currently exists between Japan and her principal partners. It is therefore a pressing political necessity for Japan to bring her import propensity into line with that of her partners, by means of domestic structural and other adjustments as well as by measures at the frontier.

4. As regards negotiations on agriculture in the new round, the Community is ready to work towards improvements within the existing framework of the rules and disciplines in GATT covering all aspects of trade in agricultural products, both as to imports and as to exports, taking full account of the specific characteristics and problems in agriculture.

The Council is determined that the fundamental objectives and mechanisms

[redacted]

both internal and external of the CAP shall not be placed in question.

5. On possible new topics for negotiation, the council considers that trade in services seems suitable for inclusion. Problems of counterfeit goods and the defence of intellectual property also deserve consideration. Other possible new items should be examined on their merits.

6. The council affirms the need for reciprocity and a better balance of rights and obligations as between all contracting parties. The council considers that too selective an approach to individual negotiating points should be avoided. A balanced package of topics for negotiations should be agreed in which all participants will find advantages for themselves. In principle items should be negotiated and the results implemented in parallel and not in succession.

7. Against this background, and in the light of the desiderata and other relevant considerations mentioned above, the Council considers that a new round would help to promote world economic recovery and growth and would reinforce the multilateral structures and disciplines of the GATT. Subject to the establishment of an adequate prior international consensus on objectives, participation and timing, the Community declares its readiness to participate in the launching of such a new round. The Community will accordingly now enlist the support of its trading partners, particularly among the developing countries, to this end. The Community further proposes that the new round should be inaugurated in Brussels. The Community recognizes that a precise date for the formal launching of a new round cannot be fixed now. A step-by-step approach will best permit solid progress to be made. to initiate the process the community renews its proposal of last May for an ad hoc GATT meeting, in the coming months, preferably at the level of senior officials from capitals, to intensify consultations about a new round and with the objective that a broad consensus on subject matter and participation should be secured at the earliest possible date.

[redacted]

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